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INDUSTRIAL INVESTMENT PROMOTION

Report by the Director-General

Summary

Reports on the industrial investment promotion activities of UNIDO, including the coordination mechanism between Headquarters and Investment Promotion Service offices.

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Introduction

1. Developing countries and economies in transition are at present looking increasingly to overseas capital and technology to accelerate industrial growth. The mobilization of resources—financial, technological and managerial—for the benefit of developing countries is a key challenge facing UNIDO. Therefore, investment promotion is a flagship programme of UNIDO. It represents one of UNIDO's major contributions for an effective and constructive entry of the developing countries into industrial globalization. UNIDO has the mandate, experience and expertise and has assumed the lead role in the United Nations system effort to attract investment resources for industry in the developing countries.

2. UNIDO enjoys a competitive advantage in industrial investment promotion. This advantage stems from its wide perspective of industrialization problems and the wealth of sectoral expertise in the major industrial branches. The advantage also stems from the long experience of the Investment Promotion Service (IPS) network, which allows daily interaction with the business communities in developed and developing countries.

3. The present report shows how the UNIDO investment promotion programme has been reoriented and enhanced to better serve the interests of both developed and developing countries. While traditional forms of technical cooperation are maintained, the future programme will be oriented more strongly towards market needs and driven by commercial considerations. The programme has been consolidating its activities to face new challenges in a rapidly changing economic and political environment. Without losing sight of the quantitative objectives, the main focus has been on improving the quality of services provided to clients. Only through constant improvement in the quality of these services can UNIDO remain relevant for and respond to the diverse needs of both traditional and new clients. Efforts are ongoing to establish alliances with different international actors, thereby optimizing the use of scarce resources, focusing on client-oriented services, strengthening the network mechanism, diversifying the range of UNIDO products and responding, on a tailor-made basis, to the requirements of clients at the Government, institutional and private-sector enterprise levels.

I. THE CURRENT PROGRAMME

4. UNIDO has been engaged in the field of investment promotion for nearly three decades. Over that period, the Organization has developed a particular approach to investment promotion and the tools to implement it. The UNIDO approach to investment is based on the promotion of specific viable industrial investment projects from developing countries. Considerable time and effort is given to the identification of such projects and to ensuring their financial soundness. This approach has the appeal that it financially benefits entrepreneurs from both developed and developing countries and is guided by commercial considerations determined by the market.

5. The integrated investment promotion programme of UNIDO involves the following main phases at three levels: governmental, institutional and private enterprise:

(a) Advice to Government on enhancing the overall investment climate and country image-building;

(b) Establishing and/or strengthening the investment promotion agency and staff training in UNIDO investment promotion methodology;

(c) Identification, formulation and screening of projects using UNIDO methodology and tools with the aim of ensuring the viability and financial/technical soundness of the projects;

(d) Promotion of investment projects, using not only the programme's focal points in different countries of the globe, but mainly its unique network of IPS offices;

(e) Project follow-up in accordance with results and requirements emanating from the promotional phase.

AN INTEGRATED PROGRAMME — UNITED REPUBLIC OF TANZANIA

The Tanzanian programme is a textbook example of UNIDO's integrated investment promotion approach. The programme embraces the range of investment promotion assistance available from UNIDO, including:

- *Advice to the Government on investment policy, including revision of the investment code;*
- *Preparation of sectoral industrial studies;*
- *In-service training, including the hosting of a delegate in an IPS and training of consultants in project preparation to UNIDO standards;*
- *Identification, formulation, screening of projects;*
- *Promotion of investment projects with potential foreign partners through IPS offices, publicity and mailing campaigns, consultants in target countries;*
- *Country presentation tours;*
- *Organization of an international investors forum from 5 to 8 November 1996, including a Techmart (meeting on technology, business opportunities and technology display);*
- *Follow-up of projects with all participants, in particular those who signed letters of intent at the forum;*
- *Project completion facility for the preparation of pre-investment/marketing studies etc., required to ensure investment decisions and implementation.*

6. UNIDO investment promotion activities are directed at a specific clientele, namely the small- and medium-sized manufacturer from developed and developing countries, mainly in the private sector. These manufacturers often lack the know-how and market knowledge to take advantage of the profits deriving from globalization. In 1995, UNIDO brokered industrial investment projects in developing countries with a total value of $862 million. Of the 107 investment projects brokered, 75 per cent had a value of less than $5 million, clearly underlining the orientation towards small- and medium-scale enterprises.

A. Investment promotion methodology and tools

7. Over the years, UNIDO has built up an array of mechanisms to ensure the quality and economic/technological soundness of investment proposals being promoted.

Pre-investment studies

8. UNIDO has a range of software, notably the Computer Model for Feasibility Analysis and Reporting (COMFAR), to assist investors in assessing the financial viability of an investment project. Another tool used to ensure the quality and economic soundness of investment proposals being promoted is the *UNIDO Manual for the Preparation of Industrial Feasibility Studies*, which has sold 230,000 copies since its first publication in 1978.

COMFAR III EXPERT FOR WINDOWS

The "COMFAR III Expert for Windows" is the new version of COMFAR, which is in use in 126 countries. Owing to high demand, the software and user manuals have recently been translated into French, German, Polish, Portuguese and Spanish. Arabic, Chinese and Russian versions are expected to be prepared in the future. A more user-friendly version of COMFAR, called "COMFAR III mini expert", was developed and released in 1996.

Promotional activities

9. UNIDO has introduced a number of promotional tools:

(a) The World Investment Network Service (WINS) is designed to promote a steady and sustained flow of investment opportunities from developing countries. Through WINS, investment promotion agencies in developing countries can electronically transmit investment proposals to the Investment Promotion Services and through these to potential investors in industrialized countries. To function effectively, WINS requires an extensive training programme to familiarize operators in developing countries with the tools of the UNIDO methodology;

(b) The delegates' programme mechanism has proven to be a major element in the international promotion of the countries of origin and their projects. In most cases, this programme constitutes a valuable instrument of promotion upon the return of the delegates to their country of origin. From January 1995 through July 1996, 44 delegates from Africa, Arab countries, Asia and the Pacific, Eastern Europe and Latin America and the Caribbean were stationed at IPS offices;

BRAZILIAN DELEGATE AT IPS PARIS

The placement of a Brazilian delegate at the IPS Paris represents a tangible example of interaction with the private sector. The delegate, who took up his assignment in March 1995, was financed jointly by the French Government and two private sector organizations (National Confederation of Brazilian Industry, Brazilian Micro- and Medium Companies Support Service). The delegate's work formed part of a cooperation programme between Brazil and France, which began in 1992.

The delegate arrived with a portfolio of 337 investment projects. During his assignment, 16 projects for cooperation were concluded between Brazilian and French entrepreneurs, and a further 3 projects achieved an operational phase. The delegate concentrated on cooperation in advanced technology. He established linkages between relevant French organizations, such as the Regional Centre for Innovation and Transfer of Technology, the Agency for Environment and Energy Management, and the French Electrical and Electronic Industry Association and their Brazilian counterparts. Particular emphasis was placed on industrial cooperation in the electronics industry, precision instruments, biotechnology and building materials. Projects of this nature formed 20 per cent of the overall portfolio of projects. The delegate was also closely associated with preparations for EUROPALIA '95.

(c) Investment promotion tours/presentations organized both by Headquarters and IPS offices for representatives of chambers of commerce and industry, entrepreneurs and semi-government officials;

(d) Investment and technology promotion forums: Events to allow face-to-face negotiations between local partners and foreign investors which have been identified by various UNIDO mechanisms. UNIDO encounters a steady flow of requests for such promotional events, a number of which have yielded significant results. In the case of investment forums, as with the entire investment programme, UNIDO has acted as a pathfinder. The programme has opened markets previously overlooked by the international investment community. The Forum held in Viet Nam in 1991 was undoubtedly instrumental in the subsequent investment boom in the country. The investment forums for seven Russian Federation regions in 1994 reflected the increasing demand from those regions for UNIDO investment promotion services. The Investment Forum in Zanzibar in 1995 had a wide-ranging impact on the local economy and served as a stimulus to economic cooperation among the developing countries of Africa and the Middle East. Other examples that successfully opened markets are notably forums held in selected provinces of China, and work currently under way in the Ukraine, the Central Asian republics, Cuba and Papua New Guinea is expected to continue that trend. The effectiveness of such initiatives is exemplified by the strong international response to the UNIDO Forum in the Democratic People's Republic of Korea, convened in September 1996.

10. However, not all forums have produced the expected results. The results of a forum depend to a large extent on an adequate preparatory phase, the quality of its investment projects, the degree of commitment of the counterpart organization in the developing country, and the resources available for its follow-up.

UNIDO INVESTMENT FORUM FOR THE TUMEN RIVER AREA

Together with the Chinese Government, UNIDO convened the first International Investment and Business Forum for the Tumen River area, in Yanji City from 10 to 13 October 1995.

This Forum was in direct support to the United Nations Development Programme (UNDP) Tumen River Area Development Programme, launched in 1991 and covering the tri-border areas of China, the Democratic People's Republic of Korea and the Russian Federation.

The forum attracted 430 overseas industrialists, bankers and financiers largely from Asia, but also a sizable contingent from Europe. The investors considered 116 selected investment opportunities valued at $1,300 million, mainly in sectors covering chemicals, petroleum, coal, non-metallic and mineral products, foodstuffs, wood and wood products, textiles, clothing, machinery, equipment and metals. As a result of the Forum, definite contracts were signed for projects valued at $68 million. (Memorandums of understanding were signed on projects valued at $300 million, while letters of intent to invest were signed for a further $245 million.)

Follow-up activities

11. Investment forums are a force in generating interest on the part of overseas investors in projects in developing countries. Bringing such projects to fruition requires monitoring and guidance and, in some cases, the strengthening of local institutions through training programmes with special emphasis on least developed countries (LDCs). Investors, both local and overseas, look to UNIDO for further assistance in assessing market size, technological requirements, additional sources of finance and human resources development.

INVESTMENT FACILITY BEARS FRUIT

Eastern Europe

In the Czech Republic, where UNIDO has recently completed a programme started in 1993, UNIDO has promoted more than 100 investment projects that were prepared through intensive contacts with the individual Czech companies involved. Thus far of these 100 projects, 27 with a total investment value of $84 million have been successfully concluded and an additional 20 are under negotiation, with close UNIDO follow-up to ensure a high success rate. The successful promotion of projects was primarily through the IPS network. The Zurich IPS office concluded 15 of these agreements, Italy, 4 and France, 2. In particular, UNIDO identified several companies in the Eastern European metallurgical sector and profiled their needs in terms of cleaner or new technology.

Asia

A joint UNIDO/Japan programme to promote industrial cooperation between developing countries and the Japanese private sector continued during 1995-1996 with emphasis on the promotion of small- and medium-scale industries.

Since 1990, the programme has been instrumental in promoting foreign investments in a number of developing countries. Based on investment studies carried out in 1992-1994, the following joint venture projects were concluded and implementation initiated.

		Investment (In millions of US dollars)
Bangladesh	- *Integrated textile mill*	*39.0*
China	- *Corrugated cardboard boxes*	*1.9*
Indonesia	- *Motorcycle parts*	*4.0*
Indonesia	- *Caterpillar links*	*5.5*
Indonesia	- *Synthetic fibre spinnerets*	*3.0*
Slovakia	- *Restructuring of SLOVNAFT*	*40.0*
Viet Nam	- *Production of sheet glass*	*156.0*
Viet Nam	- *Cement plant*	*345.0*
Viet Nam	- *Secondary concrete products*	*1.0*

Nine investment studies, mainly for small- and medium-scale investment projects, were carried out in 1995. Three of them already led to joint ventures in Thailand (resin-coated sand), China (moulds and dies), Indonesia (expanded polyester products). Three other projects in China, Indonesia and Viet Nam are being positively discussed for joint venture.

B. Competitive advantage

12. The above clearly indicates the competitive advantage of UNIDO *vis-à-vis* other organizations engaged in similar activities. This advantage rests on the following points:

(a) UNIDO is able, through an integrated programme, to provide not only inputs related to investment, but also technology- and industrial information-related matters;

(b) UNIDO is the only organization in the United Nations system that possesses a wealth of industrial sector knowledge. The application of this knowledge will increasingly be used in the design and implementation of the overall investment and technology programme;

(c) UNIDO's Investment Promotion Services—particularly in developed countries—and other focal points in developing and developed countries, constitute a unique investment promotion network. These Services are located in major commercial centres throughout the globe and are in daily contact with the business communities in those centres;

(d) UNIDO works directly, at the operational level, with private enterprises, in particular small and medium enterprises (SMEs), providing comprehensive tailor-made services.

II. EXPANSION AND INNOVATION

13. A number of actions that will influence the future of the programme have been initiated during 1996.

A. Investment Promotion Service network

14. The IPS network is not only expanding but also diversifying, as more countries, developed and developing alike, recognize its benefits. In 1996, IPS offices were officially opened in Beijing, China, in Istanbul, Turkey and in Manama, Bahrain, and reopened in Seoul, Republic of Korea, and in Vienna. In addition to the new negotiation phase with Portugal, UNIDO has been contacted by institutions in the Czech Republic, Hungary, Thailand and Ukraine to ascertain the best modality for joining the IPS network.

IPS BAHRAIN — THE LATEST TO JOIN THE NETWORK

In April 1996 IPS Bahrain officially opened. Its characteristics are strong regional and a South-South orientation. The opening ceremony was attended by Heads of existing IPS offices and by 37 senior officials and industry leaders from Kuwait, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Clearly, decision makers in the Gulf region are looking to UNIDO and IPS Bahrain as a gateway to overseas technology and management skills. Decisions to establish similar offices in other countries immediately followed. The next is to be established in Saudi Arabia, while negotiations are under way with Kuwait, Oman, Qatar and the United Arab Emirates. Eventually, a regional network will be in place to contribute to economic and technical cooperation among developing countries in the region.

15. In addition to the network's expansion, it is being diversified through new mechanisms. An investment and technology promotion initiative (ITPI) was established in India, combining investment and technology for the first time. The establishment of an investment promotion unit in Saudi Arabia is being finalized. An agreement was signed with NIMTECH, a non-governmental organization in the United Kingdom of Great Britain and Northern Ireland. Apart from investment-related activities in traditional sectors, a special event was organized in the environment-related sectors. The United Kingdom Department of Trade and Industry, UNIDO, NIMTECH and the United Nations Environment Programme (UNEP) joined hands for the organization of a cleaner industrial production forum, held in September 1996. This event brought together organizations from developing countries that are seeking cleaner industrial technologies with the appropriate United Kingdom solution providers. In a similar vein, IPS Beijing and the ITPI in India are establishing investment- and technology-related networks in provinces and states to guarantee maximum coverage in those countries. Further diversification will be a feature of the network's future development, as UNIDO reaches out to draw upon skills and resources in the various bodies engaged in the flow of capital to developing countries.

COOPERATION BETWEEN UNIDO AND NIMTECH

In November 1995, UNIDO and NIMTECH concluded a cooperation arrangement that will bring United Kingdom industry and financing closer to UNIDO. NIMTECH provides a strong technology base to boost UNIDO's capacity for promotion of new and improved technologies through its technical cooperation activities in developing countries. NIMTECH, which stands for "New and IMproved TECHnology'" is a United Kingdom private sector non-profit organization functioning as a technology transfer network. UNIDO has included NIMTECH in its global network of focal points that helps create business partnerships through investment and technology transfer. This cooperation represents a major new opportunity for United Kingdom companies to expand their operations in developing countries via the UNIDO network.

UNIDO-NIMTECH cooperation aims to generate new business for United Kingdom companies and their partners in developing countries. At a UNIDO technology promotion forum in New Delhi, NIMTECH brokered a project worth over $2 million; negotiations worth several million dollars, started at more recent forums, are ongoing.

In September 1996, a UNIDO-NIMTECH meeting in Oxford, with the cooperation of the United Kingdom Department of Trade and Industry and UNEP, examined the practical problems facing the transfer of cleaner production from industrialized to developing countries and the financing of cleaner production investments.

B. New initiatives

16. Increasing emphasis will be placed on negotiating Trust Fund agreements with a variety of industrial clients, especially private-sector entities. An example of the innovative possibilities of Trust Fund agreements is to be found in the Agreement signed with the Swiss Association for Cement, Limestone and Gypsum Manufacturers. Through this Agreement, manufacturers in the Russian Federation in the construction-industry sector will be assisted in concluding industrial cooperation agreements, involving both investment and technology, with overseas partners.

17. The Guidelines for the Functioning of the Investment Promotion Service Offices, as amended by the General conference in decision GC.6/Dec.12, stipulate that the Services may charge fees for their services on a cost-reimbursement basis. Such fees would supplement the core funding provided by the host Government. Presently, contributions are being received from public and private sector organizations to fund the delegates' programme and specialized promotional events. Plans are under way to extend this fund mobilization in order to recover the costs involved in an expansion of the activities. Fees are also anticipated where, for example, a Service is called upon to provide intensive advisory services in the negotiation of a particular contract. The Services operate largely in a commercial environment. Their growth, which is crucial to the development of UNIDO investment promotion programmes as a whole, will to a certain extent be determined by business criteria and IPS performance as business centres.

18. A recently initiated project is aimed at promoting foreign (initially Austrian) food-processing and agro-industrial machinery and equipment producers in the Russian Federation via UNIDO. The concept is: (a) to create a pool of Austrian private companies interested in promoting their food-processing and agro-industrial machinery, equipment and services in the Russian Federation; (b) to identify existing investment opportunities in selected regions of the Russian Federation; (c) to prepare technically sound and potentially viable investment projects, using the UNIDO industrial investment project profile format; and (d) to elaborate project financing schemes through the establishment of consortia of Austrian producers and Austrian banks, which would supply the credit lines. Local regional administrations in the Russian Federation would elaborate adequate forms of guarantees acceptable by the crediting banks.

SOUTH-SOUTH COOPERATION

UNIDO has started implementation of a project within the framework of South-South cooperation. The purpose of the project is to upgrade the knowledge of experts from Kyrgyzstan in export-oriented investment project identification and promotion, to attract foreign investment into small- and medium-scale enterprises and to gain access to the international markets. This project will contribute to cooperation among developing countries through the transfer of Philippine investment know-how to Kyrgyzstan with the financial support of Japan and through attraction of Japanese investments into the Kyrgyzstan economy.

Implementation consists of the following phases:

(a) A workshop in Bishkek organized jointly by UNIDO Headquarters, IPS Tokyo and the Philippine Board of Investment, as well as plant visits of Kyrgyzstan enterprises;

(b) Identification and formulation of export-oriented investment projects by Kyrgyzstan and Philippine experts;

(c) A follow-up programme for 1997-1998 will include:

(i) Promotion of projects identified by the Kyrgyzstan delegate at IPS Tokyo;
(ii) Investment promotion tour of businessmen to enterprises in Kyrgyzstan;
(iii) Preparation of feasibility studies for selected projects;
(iv) Preparation of an investor's guide to Kyrgyzstan;
(v) An investment forum to enable potential investors and entrepreneurs to hold face-to-face bilateral negotiations on investment projects.

19. Finally, recent requests for corporate advisory services by the Chamber of Industry and Commerce of Sharjah in the United Arab Emirates and the Government of Algeria for large-scale investment projects are a clear indication that the diversification of UNIDO services not only meets client requirements but may constitute a better security in the final investment of funds in projects, where small errors could mean the loss of millions of dollars.

20. Among the new initiatives under way is UNIDO's involvement in Build-Operate-Transfer (BOT) projects. BOT is associated with major industrial infrastructure projects and UNIDO offers assistance of a policy nature and on standard procedures, training, negotiations and certification arrangements. The Organization's strategy towards BOT is to promote technology changes, which minimize the adverse environmental effects and excessive infrastructure costs. Currently, UNIDO is assisting China and Ecuador in formulating and negotiating BOT projects in the power sector. Assistance from UNIDO as an international organization is particularly relevant in regional development contexts where many countries must build up industrial infrastructure facilities in order to facilitate or complement industrial investments or to ensure clean production.

III. INTEGRATION AND COOPERATION

21. Investment and technology are usually travelling companions. The programme to promote the flow of investment to developing countries needs to be interwoven with the programme to promote technology flows. A start in this direction has been made in the Investment and Technology Promotion Division (ITPD) with the organization of Intechmarts, where a portfolio of investment projects is promoted alongside a portfolio of technology projects. This approach has shown concrete results in the Intechmart held in India in February

1996. Cooperation between all aspects of the investment and technology programmes is being strengthened. As referred to above, the BOT mechanism developed in the Technology Service is being increasingly called upon for its integration into the overall investment cycle of special investment projects.

22. The incorporation of the Industrial Information Section into ITPD in March 1996 facilitates its investment and technology promotion activities in two important ways. The first is through the development of sustainable national information networks, which are designed to meet the demand for information and support services from SMEs in a given country. Investment promotion agencies, technology transfer agencies and other focal points are natural parts of such networks. The second is through the activities in information resource management at Headquarters which aim to integrate and coordinate the presentation of the activities of the Organization on the World Wide Web (WWW) server of UNIDO, including access to business opportunities resulting from its investment and technology promotion and other technical cooperation activities.

23. Successful investment promotion draws upon the wealth of industrial sectoral knowledge in UNIDO and *vice versa*. A trial was made in the organization of the Investment Forum in Morocco, where the cooperation of the Industrial Sectors and Environment Division (ISED) in the technological screening of project profiles enhanced the value of proposals being sent for international promotion, thereby underscoring the UNIDO comparative advantage in this respect. Examples of marriage between the technical work of UNIDO and the promotion of investment and know-how are to be found throughout the work programme of UNIDO, not least in the environmental field, where ISED and ITPD are increasingly working together, as is the case in the forum for cleaner production technologies (see para. 15 above).

United Nations system

24. Within the United Nations family, a range of possibilities for cooperation is being explored. Beyond the standard cooperation with UNDP, a closer coordination with the United Nations Conference on Trade and Development (UNCTAD) is envisaged by blending the analytical skills and international policy formulation of UNCTAD with the practical investment promotion machinery established by UNIDO. A clear division of labour and complementarity between the two organizations in the investment field would clearly benefit recipient countries, as demonstrated by the large-scale UNDP promotional project in the Democratic People's Republic of Korea, which is being implemented jointly by UNIDO and the International Trade Centre UNCTAD/WTO.

UNDP SUPPORT

The good results achieved in the UNIDO investment programme for Zanzibar, including the forum, prompted UNDP to allocate $767,000 for follow-up activities for the full completion of the investment cycle.

UNDP also supported UNIDO in organizing the Regional Forum at Amman for Egypt, Gaza and the West Bank, Jordan, Morocco and Tunisia. A notable outcome was the decision to place delegates from some of these countries (two from Jordan, one each from Egypt, Palestine, Morocco and Tunisia) in the IPS offices at Milan, Paris, Tokyo and Zurich.

These examples show that the resources allocated by other United Nations agencies to UNIDO are well invested and effectively utilized because of the established UNIDO network and experience in investment promotion. It is hoped that the scarce resources of the system will be increasingly optimized in this way.

Other international institutions

25. Intense interaction is taking place with financial institutions to assist in funding projects identified and developed by UNIDO. An example of the form of interaction UNIDO wishes to encourage can be found in the case of Bangladesh. Following a feasibility study undertaken by UNIDO, a joint-venture company was established to construct an integrated textile mill. In addition to the Japanese and Bangladesh partners, the International Finance Corporation (IFC) has also taken equity position in the project.

26. Worth mentioning are the successful negotiations with institutions such as the World Bank, IFC and the European Bank for Reconstruction and Development (EBRD) on financing investment projects identified by UNIDO. For example, the investment projects prepared for the UNIDO investment forums in the Russian Federation for the Sakha Republic, Krasnoyarsky Krai and Orenburg regions in 1995 and for Ukraine in 1996 were submitted for financing to these institutions. Furthermore, UNIDO organized investment presentations of the Orenburg region projects at EBRD (October 1995) and the World Bank and IFC (February-March 1996), which resulted in the selection of 11 projects for financing by those institutions.

27. Recently, UNIDO has developed a mutually beneficial cooperation with the OPEC (Organization of the Petroleum Exporting Countries) Fund. UNIDO conducted training seminars for OPEC Fund staff on investment project appraisal and implementation, using UNIDO methodology. In 1995, the OPEC Fund was approached by the Vietnamese Government to provide a loan for financing an investment project on production of disposable syringes and needles. Before taking a decision, the OPEC Fund requested a feasibility study, the preparation of which was entrusted by the two parties to UNIDO. The study was initially pre-financed by the OPEC Fund with the agreement of the Vietnamese Government to consider the cost of the study as a part of the future investment loan.

COOPERATION WITH FINANCIAL INSTITUTIONS

Asia

UNIDO has extensive cooperation with the banking system at all phases of the investment cycle. For example, the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) and the Asian Finance and Investment Corporation (AFIC), which is an affiliate corporation of the Asian Development Bank (ADB), have been involved in the preparation of investment project portfolios for the investment forum scheduled in May 1997 in the Philippines, and will actively participate in their promotion, possible investments, financing loans and follow-up.

Europe

To ensure close coordination, joint projects have been implemented to generate a greater understanding of the UNIDO approach to project financing, project appraisal and investment promotion. In this category, the seminar at Budapest in April 1996 was organized with the Creditanstalt Bankverein (Austria). Similarly, IPS Milan collaborated with Mediocredito Centrale, the Italian state financing institute responsible for soft loans to support Italian exports and joint-venture investments, as well as for the management of financial credits to developing countries. After the acquisition of COMFAR III Expert by Mediocredito Centrale, a training course was conducted to familiarize institute staff on how to use the package.

Eastern Europe and CIS

An Executive Director of EBRD, in an interview (Business News, 4 June 1996), referred to his recent participation in the UNIDO Forum in Ukraine as follows: "... I have to acknowledge that representatives of the EBRD arrived at the Forum rather sceptically. This scepticism was shaken when each of us selected three projects from 97 presented (normally EBRD selects only 1-2 projects from 1,000 submitted for consideration). I would like to underline—and this is very important—that the attractiveness of the projects is mainly due to the fact that they were prepared using UNIDO's methodology and fully correspond to international standards. Thus, EBRD has under its consideration 15 projects ..."

28. Cooperation with the European Commission further demonstrates the advantages of joint action. The Commission has joined hands with UNIDO in organizing significant promotional events, such as EUROPALIA in Paris and Sao Paulo and BORITEC in Milan. Also, through its TACIS Productivity Initiative Programme, the Commission is lending support to the delegates' programme.

EUROPALIA

Europalia is a promotional event, held in alternate years in Europe and Latin America. In June 1995 the fair, which aims at promoting closer industrial cooperation in the agro-industry sector, was convened at Sao Paulo, Brazil. The promotion was organized by UNIDO and the European Commission (the Al-Invest programme).

The fair in Sao Paulo was based on a sound preparatory phase, in which 290 potential investment projects were identified and widely circulated in Europe and Latin America. A total of 164 manufacturers from 8 Latin American countries participated as well as 70 European enterprises from 7 countries. As a result, 23 commercial partnerships, 31 technological partnerships and 3 institutional partnerships were established. The success of Europalia has led to similar bi-regional events, such as Europeia in February 1996, promoting partnerships between Western European countries (Belgium, France, Italy, United Kingdom) and Central European countries (Bulgaria, Hungary, Poland, Slovakia), again concentrating on the agro-industry sector.

IV. AGENDA FOR FUTURE ACTION

A. Follow-up activities

29. While strong efforts are being made by UNIDO to provide integrated programmes to clients, the perception remains that the investment promotion programme comprises only investment forums. There is also a tendency to see these forums as an end in themselves rather than as only one element of the integrated investment promotion programme. There is much more to be done after an investment forum to bring the project ideas discussed and agreed upon to the stage when the project is materialized. It is in this area where concerted efforts are necessary, so that the full strength of all services of UNIDO can be brought to bear on the promotion of investment in developing countries.

30. Frequently UNIDO meets financial constraints in promoting projects from the idea stage to actual investment. Therefore, there is a need to introduce an extensive follow-up and monitoring system for investment projects supported by a financial mechanism in the form of a project completion facility, which should be an integral part of any investment forum project. While the donor community will be looked upon to provide the major part of the funding requirements, a commitment will be required also on the part of recipient countries to earmark available resources for concrete follow-up activities. The concept of the project completion facility must be looked into carefully in view of its advantages for both developing and developed countries.

31. Furthermore, human resources development is one of the key activities of the integrated investment promotion programme. Since promotion of investment opportunities requires time, the actual impact of investment forums can only be judged after the completion of a follow-up phase. To carry out this follow-up phase effectively, it is important that human resource development components be included in the integrated programmes and that close cooperation between UNIDO and trained staff in counterpart organizations be maintained after the forum. The inclusion of follow-up activities in the integrated programme will ensure that the forum is not a "stand-alone" event.

B. IPS network coordination

32. As acknowledged by the Board in decision IDB.15/Dec.2, more effective coordination between Headquarters and the IPS network is required. As outlined in chapter II above, this network comprises in the inner circle IPS and similar offices established by UNIDO in developed and developing countries, and in the outer circle investment promotion agencies that have established close working relations with UNIDO on investment promotion.

33. UNIDO is actively supporting investment promotion agencies and technology centres in developing and developed countries to capitalize on the opportunities offered by the Internet and other interactive networks. This is achieved by providing training and advice on hardware and software requirements and efficient use of existing communication services and tools for transmitting investment and technology information within the IPS network. UNIDO's aim is to promote a steady and sustained flow of investment opportunities from developing countries to developed countries.

34. For more effective coordination within the IPS network, an efficient information flow (through increasing use of advances in communications technology) and coordination of work programmes and goals have to be ensured by Headquarters. This will be the emphasis in the years to come, as administrative decentralization has already been introduced in 1996.

35. In the past, IPS offices tended to operate independently rather than as a network having a strong linkage with Headquarters. In the restructuring, the IPS Network Coordination Unit was placed in the Office of the Managing Director of ITPD. The network will now be strengthened through continuous improvements in information flow and quality of inputs (on aspects of both financial and technical viability of projects) from Headquarters and IPS staff. At the same time, IPS offices are being invited to participate in the identification and screening of projects from the beginning, when a programme is initiated in a given country, thereby consolidating the integration between all parties concerned.

36. Likewise, it should not be forgotten that each IPS has to operate in its own unique environment, and that priorities vary from one Service to another. In one, the emphasis may be on upstream investment activities, while in the other the focus is on assisting partners in final contract negotiations. Some IPS offices assign a greater priority to the delegates' programme than others. Most Services promote outward investment, but a few do both inward and outward investment promotion.

37. UNIDO Headquarters has to set common targets and goals in accordance with given priorities, e.g. a concerted programme of action in investment promotion for Africa, and to coordinate with the IPS offices in the implementation of work programmes designed to meet those targets and goals. The resources of the Technology and Information Services have to be drawn in to complement those of the Investment Service and the IPS offices to achieve synergy and to maximize results.

38. It is essential that the activities of the IPS offices are in tune with those of Headquarters. With this goal in mind, a performance appraisal system with specific mechanisms for coordination and monitoring will be introduced. Apart from increasing the accountability of IPS offices, this will also achieve a certain degree of uniformity in their performance.

C. Delegates' programme

39. A major effort is being made to increase the participation of representatives of developing countries, in particular LDCs, in the delegates' programme by encouraging financial contributions from various sources. The assistance provided by IPS offices needs to be complemented with facilities existing at Headquarters. An orientation course at Headquarters would familiarize delegates with the methodologies and mechanisms of the UNIDO integrated investment promotion programme, thus benefiting both IPS offices and the delegates' countries of origin.

V. OUTLOOK

40. UNIDO is required to constantly upgrade the quality of investment promotion services being offered mostly to small- and medium-scale entrepreneurs from industrialized and developing countries. In the future, close attention will, *inter alia,* be given to:

(a) **Mandate of investment promotion:** Owing to the increase in the demand for investment promotion activities as well as the need to optimize scarce resources of the international community, it is fundamental to maintain the recognition of the lead-agency status of UNIDO for industrial investment promotion activities in the United Nations system in order to avoid a waste of resources by spreading them thinly among other United Nations organizations.

(b) **Least developed countries:** A characteristic of globalization has been its uneven nature. A number of developing countries are reaping the returns of the internationalization of world manufacturing. Others, possibly the majority of developing countries, have neither the industrial infrastructure nor the managerial skills to take part in this process. This is particularly true of sub-Saharan Africa and LDCs, which are in serious danger of being marginalized. An emphasis in the UNIDO investment promotion programme is to ensure that all developing countries have the opportunity to compete fairly in the global market place.

(c) **Delegates' programme:** The placement of delegates from developing countries in UNIDO Investment Promotion Service offices has proved a particularly effective force in channelling investment funds to those countries. The aim will be to broaden the base of this programme to include a larger number of delegates, particularly from LDCs.

(d) **Coordination:** Coordination within UNIDO is to be enhanced to ensure that the full weight of UNIDO sectoral expertise is applied to the investment and technology promotional programmes. Coordination will also be directed to attracting investment funds for projects identified through UNIDO sectoral technical cooperation programmes.

(e) **Networking:** Networking will continue to be improved between IPS offices and similar offices in the network to enable developing country investment opportunities to find partners in developed countries. At the same time, liaison with Headquarters will be strengthened with a view to a closer linkage between the technical cooperation programme, including the organization of forums, and the operation of the IPS network.

(f) **Quality of projects:** The success of the investment promotion programme depends on the presentation of sound investment opportunities to potential investors. The emphasis in the future will be on a still more selective approach to projects (as well as promotional events), stressing projects that are not only financially sound but are attractive to potential investors.

(g) **Follow-up activities**: Together with a more selective approach to project identification, greater attention will be given to monitoring the progress of partnerships formed initially, for example at Intechmarts. Where possible, UNIDO will offer assistance in subsequent negotiations to promote a successful outcome in terms of construction or expansion of a manufacturing concern.

(h) **Funds for programme consolidation:** The fragmented nature of funding available for the various components of the UNIDO investment promotion programme poses a serious and perpetual constraint to implementation. Each IPS has its own restricted budget provided by the host Government, and each investment forum has a limited budget. Funding is hard to obtain for any other activities, e.g. to complete the promising negotiations started at Intechmarts. For a start, an investment promotion fund totalling approximately $1 million a year would significantly help to consolidate the existing programme and to design more efficient and cost-effective activities.

(i) **South-South cooperation:** UNIDO has already channelled resources—capital, technology and management skills—from the more industrially advanced developing countries towards those at an earlier phase of industrialization. In the search to optimize resource flows, this form of cooperation will be increasingly prominent.

(j) **Staff-related matters:** The evaluation of IPS offices will be extended to performance evaluation of individual staff members. This exercise, in keeping with overall UNIDO staff performance evaluation, will seek to guide staff in making the optimum contribution to the investment promotion programme. The programme is complex and staff training in the various investment tools is essential.

(k) **Training of staff members:** Investment promotion is a complex task and there is a need to continually update the skills of staff to correspond to the changing nature of UNIDO services being offered. Towards this end, specialized training will be offered to upgrade the skills of staff members, consultants and delegates to achieve maximum operational efficiency. This training will focus particularly on improving the quality of the projects distributed for promotion.

(l) **Interaction with Member States:** To improve the quality of services and to gauge the exact investment requirements of both developed and developing countries, the dialogue with Member States will be intensified. Guidance from Member States will be sought in assessing the impact of UNIDO's investment programmes in both donor and recipient countries.

VI. ACTION REQUIRED OF THE BOARD

41. The Board may wish to take note of the present report and provide guidance for future action.